

STATE TREASURER'S 1999 POLICY GOALS AND INITIATIVES

POLICY GOALS

California State Treasurer Phil Angelides was sworn into office on January 4, 1999. His key goals are to protect taxpayer funds, to cost-effectively finance schools and other infrastructure that California needs to succeed in the 21st Century, and to invest more in California communities. What follows is a brief summary of the major 1999 policy initiatives launched by the Treasurer in pursuit of these goals.

POLICY INITIATIVES

SMART INVESTMENTS

With California facing unprecedented growth in the years ahead, the State Treasurer released *Smart Investments*--a report which articulated a state investment policy to help ensure the State's long-term economic prosperity.

Smart Investments recognized that California cannot achieve sustained economic success in the long run if the environment is degraded and if there are pockets of poverty throughout the State. Accordingly, the report outlined a strategic and fiscally prudent approach to investment which called for: investments that support livable communities, sustainable development and sound environmental practices; and investment in struggling communities to reverse a dangerous trend toward "two Californias"--one in poverty and the other enjoying an economic boom.

Additionally, the report recommended a more cost-effective fiscal approach to infrastructure investment, stronger regional planning, and empowering local communities to invest for their future.

Since the release of *Smart Investments*, the Treasurer's office has proceeded on a number of fronts to implement the investment policies outlined in the report (see sections below regarding **Financing California Schools and Infrastructure** and **Investing in California Communities**). A full copy of the report may be found on the web at www.treasurer.ca.gov.

PROTECTING TAXPAYER DOLLARS

- **State Credit Rating at an 8-Year High**

In July, California's credit rating was raised to an eight year high, saving taxpayers up to \$100 million in interest costs on state debt. The Treasurer and Department of Finance officials requested the upgrade based on a number of key factors, including improved debt management practices; on-time adoption of the State Budget; the overall strength

and diversity of California's economy; and the use of increased state revenues to fund one-time expenses, such as infrastructure investment.

- **Thwarting Bond Abuse**

1999 saw a new commitment by the State to stop abusive bond and investment practices that could shake the confidence of investors and thereby undermine the ability of California communities to finance critical local projects such as schools and transportation.

For the first time ever, the Attorney General and the Treasurer brought legal action against a questionable local bond sale--in which two cities sought to issue bonds for a golf course development over 300 miles away. The action was taken to protect the integrity of California's public finance markets and to uphold a recent law banning such bond issues.

In addition, the Treasurer has initiated a *Treasurer's Alert* and toll-free hotline number to provide a forum for inquiries about questionable bond and investments deals.

- **Moratorium on Risky Tobacco Investments**

With the tobacco industry facing an extraordinary and unprecedented barrage of litigation and regulatory action, the State Treasurer placed a moratorium on any investment in tobacco companies by the State's Pooled Money Investment Account. The Treasurer also called upon the State Teachers' Retirement System, on which he sits as a board member, to consider divestment.

The Treasurer's action was based on fiduciary concerns--given the market effects and risks of the continuing pressures on the tobacco industry. Philip Morris shares lost over 50 percent of their market value in 1999, and US Tobacco, Inc. lost 32 percent of its shareholder value. The S&P Tobacco Index lost 53.9 percent of its value in 1999 versus the S&P 500 Index which returned 16.7 percent for the same period.

- **Increased Accountability Over California Earthquake Authority**

In March, the State Treasurer called for a full independent review of the state-run earthquake insurance fund, the California Earthquake Authority (CEA), where he sits as a board member along with the Governor and Insurance Commissioner. The review, which is expected to be completed by mid-year 2000, will include a thorough analysis of the CEA's financial and actuarial status, its management capacity and its ability to meet obligations to approximately 900,000 policyholders in the case of an earthquake disaster.

FINANCING CALIFORNIA SCHOOLS AND INFRASTRUCTURE

- **"Smart Investment" Criteria Adopted for Low-Cost Local Infrastructure Loans**

The State Treasurer's office advocated for a new set of criteria for awarding more than \$1.4 billion in loans for local infrastructure projects at the California Infrastructure and Economic Development Bank, where the Treasurer sits as a board member. The new criteria, adopted in December, will reward projects that help revitalize economically struggling communities and neighborhoods, and that support sustainable development and sound environmental practices.

- **Extra Credit Teacher Home Purchase Program**

The Extra Credit Teacher Home Purchase Program (Extra Credit) was adopted by the California Debt Limit Allocation Committee, chaired by the Treasurer, in January 2000. The program will provide \$150 million in tax credits over the next four years to help more than 4,000 teachers, willing to serve in low performing schools, purchase a home. Extra Credit will provide teachers with a credit against taxes worth approximately \$37,000 over the life of a 30 year, \$150,000 mortgage--with an annual savings of up to \$1,800. It is expected that the program will be up and running by August 2000.

- **ScholarShare – Helping Families Finance College Education**

October saw the launching of California's first-ever college savings program—Golden State ScholarShare. The program is run by the ScholarShare Investment Board, chaired by the Treasurer. ScholarShare will allow families to save funds in a tax-advantaged account to help pay for their children's higher education costs. Under the program, contributions will be invested with federal and state taxes on earnings deferred until the money is used for higher education. Funds, when withdrawn, are then taxed at the student's tax rate. To enroll, or get more information call toll-free (877)SAV-4EDU, or visit the program website at www.scholarshare.com.

- **\$1.7 Billion to Local Schools for Construction and Repair/"Smart Bonds" for Cost Savings and Interim Financing**

During 1999, the Treasurer's office made available over \$1.7 billion in voter approved Proposition 1A funds to local schools for school construction and repair. In addition, the Smart Bonds program was launched to allow districts to finance their facility needs at better terms than would be available to a district on its own.

The Smart Bonds program also provides "bridge financing" to help districts accelerate needed school repair and modernization projects that have been approved for Proposition 1A bond funding, but would otherwise need to wait until the second phase of bond funds become available in July 2000.

INVESTING IN CALIFORNIA COMMUNITIES

- **Increased State Deposits in California Banks**

The Treasurer's office has put more of the taxpayers' money--managed through the State's Pooled Money Investment Account--to work here in California by increasing deposits of state funds in community banks. The program assures a yield to the State that is above the Treasury Bill rate and deposits are more than fully collateralized. The State deposits provide lenders funds to boost small business and home mortgage lending in California communities.

During 1999, an additional \$800 million was deposited in the California banks and the number of participating institutions increased from 35 to 63.

- **\$1 Billion Invested in Home Loans for Californians Produces Strong Yields for State**

\$1 billion was committed by the Treasurer's office to purchase home loans made to low and moderate income Californians or in low and moderate-income neighborhoods. The purchase of securitized Community Reinvestment Act loans allows original lenders to make additional loans to California homeowners.

The first purchase of \$400 million, by the State's Pooled Money Investment Account (PMIA), will yield more than the PMIA's overall return, while helping to stabilize neighborhoods through increased home ownership. Standing behind the securities is Freddie Mac, with assets of over \$300 billion.

- **Over \$1 Billion Invested in Urban Communities**

As a member of the board of the California Public Employees Retirement System (CalPERS) and the California Teachers Retirement System (CalSTRS), the Treasurer has urged greater investment by the funds in California's urban communities, consistent with the funds' fiduciary obligations.

CalPERS added an urban core investment initiative to its Real Estate Portfolio and has allocated \$250 million in new commitments to urban real estate ventures targeted to California. In addition, CalSTRS moved forward to create an urban real estate investment program resulting in an allocation of \$750 million.

Both investment programs are designed to give the pension funds market rates of return, while creating investment and economic activity in California's urban communities.

- **Tax Credit Program Reformed to Assure Affordability, Achieve Sustainability Goals**

In June, the California Tax Credit Allocation Committee, chaired by the Treasurer, adopted a new system for annually awarding \$450 million in federal and state tax credits for the construction and rehabilitation of affordable rental housing—replacing the previous administration's lottery system. The reformed program establishes a point system which, among other things, prioritizes projects in struggling neighborhoods in which the housing is part of a comprehensive revitalization effort and projects which meet a set of sustainable development goals—for example, projects within walking distance of transit, schools, parks and shopping.

- **Awarding Low-Cost Financing Based on "Smart Investment" Criteria**

The California Debt Limit Allocation Committee, chaired by the Treasurer, adopted new rules for the allocation of \$1.6 billion annually in low-cost financing for affordable housing, pollution control, job creation and student loans. The proposal replaces a "first come, first serve" allocation method. Under the new system, projects will be prioritized based on public policy objectives which target resources to lower income communities; support sustainable development; and leverage public dollars.

- **Increased Aid to Community Health Clinics**

The Treasurer's office was successful in obtaining \$10 million in new funding for loans to community health clinics through the 1999-00 State Budget and through legislation. The California Health Facilities Financing Authority, chaired by the Treasurer, is using the new resources to finance community health clinics that meet the needs of underserved neighborhoods, families and the elderly.